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. . CONTENTS . .

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Fixing Depreciation on the Basis of Business Volume

By B. W. LANG
(*Goodyear Tire and Rubber Company of Canada, Ltd.*)

(Before Toronto Chapter, Dec. 7th, 1934.)

DEPRECIATION may be defined as the liquidation of the cost of fixed assets in product or operating costs during the estimated serviceable life of such fixed assets. Depreciation should be provided and included in manufacturing or operating expense in order to arrive at an accurate production or operating cost.

All fixed assets suffer a steady and irresistible depreciation. Repairs and replacements will prolong the period of usefulness but cannot prevent the ultimate depreciation.

Depreciation should be computed, based on cost of fixed assets. No attention need be paid to market price, whether in excess of or less than cost or the depreciated value, as these assets are not for sale. The accounting records should show fixed assets at cost less depreciation provided. The depreciation goes on over a considerable period of years, ultimately leaving an asset without book value.

Importance of Depreciation in Costs and Accounting

Successful business organizations depend more than ever on cost and accounting information, and the proper interpretation of this information as furnished by the accountant.

Accountants must be continually on the alert to develop more accurate cost and accounting records for the guidance of the management. Changing business conditions may make it desirable to modify what may previously have appeared to be an excellent practice.

Depreciation is one of the most important items in the cost accounts of a manufacturing organization, and it is doubtful whether the subject has been given the study and consideration warranted.

The all-important fact to keep in mind is that depreciation is a very definite expense which must be met. Any well-defined method of determining this depreciation is a safeguard against the day of reckoning which might prove fatal to an enterprise if depreciation set up, during the life of the asset, was not equal to cost.

A final consideration of the depreciation policy concerns the bond-holders and stock-holders. An insufficient depreciation allowance results in false profits, the possible payment of dividends out of capital, and possibly the wrecking of the company. A too liberal depreciation policy results in low profits or false losses and the creation of abnormal reserves which may be used to the prejudice of the bond-holders or stock-holders.

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* This paper was presented by Mr. Lang in introducing a debate on the subject: Resolved That Depreciation Charges Should be Based on Volume of Business Rather Than on Time.

Application of Depreciation on Volume of Business—Introduction

We will consider the fluctuations in production in Canada during the past fifteen years as reported by the Dominion Bureau of Statistics, based on 1926 as 100.

	High	Low
General Manufacturing ..	117.7—1929	60.1—1921 (74.0—1932)
Iron and Steel	139.8—1929	31.3—1932
Automobiles	123.3—1929	29.0—1932
Tires	146.2—1929	28.7—1921 (54.4—1932)

The practice of depreciating assets on the straight percentage basis each year results, during periods of abnormally high volume, in inaccurate costs, under-quoting of selling prices, and false profits. while in low volume years the result is excessive costs, over-quoting of selling prices, and low profits or false losses.

The important point, from the commercial and accounting standpoint, is to secure a fair and equitable charge to each unit of product, regardless of whether or not each fiscal period is charged with an equal burden.

It would be just as logical to determine a cost of production or a profit without inclusion of cost of all materials used, as to compute a manufacturing cost without including a fair amount for depreciation.

The theoretically ideal method is to depreciate or amortize the cost of plant, machinery and equipment, during the serviceable life of such assets, so that each unit of production will bear its just proportion of the cost. The serviceable life period of the asset will be viewed as a whole, and the total cost distributed as evenly as possible over total output. This practice should result in more accurate costs and be for the best interests of a company and its owners.

The particularly desirable feature of this method is that the depreciation charge coincides with the use made of the asset, it being assumed that assets depreciate in proportion to use, although the time factor must also be given proper consideration.

Basis of Establishing Computed Yearly Depreciation Percentages

Yearly depreciation percentages should be based on the estimated service life of buildings, machinery, equipment, etc. Depreciation percentages should be established only after an extensive study of the probable useful life of such assets, taking into consideration such information as may be available on the subject covering the industry in question or companies in a similar line of business.

One set of depreciation percentages would not be applicable to the same type of assets in different industries or in different plants within the same industry. It is, therefore, important that each company establish depreciation rates based on a thorough study of fixed assets, type of business, permanency of production, and all other pertinent evidence.

A booklet published by the Bureau of Internal Revenue of the United States, entitled "Depreciation Studies", includes a list of depreciation rates covering practically all industries. These rates were built up from data collected over a period of years. This booklet would be of value to any company making a review of depreciation rates.

Depreciation rates and reserves should be reviewed at least yearly. If it is necessary to adjust the current depreciation rates, then this may be done by establishing new percentages or by arriving at a yearly computed depreciation amount, based on the unde-

preciated balance on each asset item, divided by the estimated number of years of remaining serviceable life.

Estimating Normal Production Volume

All companies and industries are subject to a substantial variation in volume of business over a period of years.

Normal production volume, to be used in establishing standard depreciation, may be based on a forecast of, say, five years ahead, also taking into account previous experience. This estimated normal production volume should not exceed, say, 60 to 75% of plant capacity.

Normal production may be estimated for each product or class where more than one line of product is produced in a plant. The total normal production of all products may be used to determine standard building, power plant, or other depreciation not applicable to a specific class of product. In the case of the rubber industry, normal production volume might be established on the main classes of production, such as tires, tubes, belting, heels, hose, etc.

Method of establishing Standard Depreciation Units per ton, etc. of Production to be Used in Accounting and Costs

A number of factors must be taken into consideration in establishing standard depreciation units, and figures established must be tempered with good judgment.

It has been contended that charges for repairs and renewals are comparatively small during the early life of the asset, and at the same time, the asset is usually capable of producing a greater income. It is also true that, as the life of the asset increases, renewals and replacements become relatively heavier, and the asset is not capable of producing as great an income as during earlier years. Therefore, depreciation should be accumulated at a more rapid rate during the earlier years of the asset, when its productivity and income-earning power is greater, and thus allow depreciation charges to be lowered as the age of the asset increases.

One standard depreciation unit may be established for total plant, machinery and equipment, where one product only is produced in a plant. Where a number of products are produced in the same plant, a standard depreciation unit should be established for machinery and equipment used in the production of each class of product, based on normal volume for each class, and a standard unit established on buildings, power house, service equipment, etc., based on the total normal volume.

Standard depreciation units to be used in costs and accounting are based on units determined by dividing the total computed depreciation, based on estabished yearly depreciation percentages, by the estimated normal yearly volume of production.

Standard depreciation units should not be reduced due to several abnormally high production years such as were experienced by business in general, and steel, automobile and radio industries in particular, during a period such as 1927 to 1930.

It is important that a yearly review be made of the normal production volume and standard depreciation units in use, as adjustments will be necessary from time to time.

Effect on Costs

The establishment of standard depreciation per ton or other unit of production will result in a more uniform depreciation charge being included in costs from year to year.

Depreciation should be charged to operating costs each month, based on volume of production, and in this way, correct one of the largest uncontrollable items in establishing production costs. This

practice would substantially reduce the under or over recovery on overheads from month to month and year to year where standard product costs are used.

Herewith are figures over a period of years for Company A, showing production in tons, computed depreciation, estimated standard depreciation, and under or over recovery. These production and depreciation figures are based on the records of a large manufacturing company.

	Plant Production Tons	Computed Depreciation Included in Cost $	Computed Depreciation Included in Cost Per Ton	Estimated Standard Depreciation $	Estimated Standard Depreciation Per Ton	Accumulated Under or Over-Recovery
1920	15,000	210,000	$14.00			
1921	7,000	210,000	30.00	98,000	14.00	112,000 under-recovery
1922	16,000	230,000	14.39	224,000	14.00	118,000 "
3	20,000	250,000	12.50	280,000	14.00	88,000 "
4	19,000	260,000	13.70	266,000	14.00	82,000 "
5	33,000	340,000	10.30	462,000	14.00	40,000 over-recovery
6	38,000	395,000	10.39	380,000	10.00	250,000 "
7	54,000	400,000	7.41	540,000	10.00	165,000 "
8	60,000	420,000	7.00	600,000	10.00	345,000 "
9	65,000	450,000	6.92	650,000	10.00	545,000 "
1930	46,000	430,000	9.35	460,000	10.00	575,000 "
1	34,000	420,000	12.35	255,000	7.50	410,000 "
2	24,000	410,000	17.08	180,000	7.50	180,000 "
3	28,000	400,000	14.29	210,000	7.50	10,000 under-recovery
4 est.	42,000	400,000	9.52	315,000	7.50	95,000 "
5 "	46,000	375,000	8.15	345,000	7.50	125,000 "
6 "	50,000	350,000	7.00	375,000	7.50	100,000 "
7 "	52,000	350,000	6.73	390,000	7.50	60,000 "
8 "	40,000	300,000	7.50	300,000	7.50	60,000 "

The actual depreciation cost is shown as low as $7.00 during 1928-9, and as high as $17.00 in 1932. Is it sound accounting practice to include depreciation in costs on this basis?

The first standard unit of $14.00 per ton could have been established in 1920, based on forecast of production and depreciation. The second unit of $10.00 per ton could have been based on a forecast at the end of 1925. During the following five years the Company experienced an abnormally high volume of production, necessitating a substantial expenditure in buildings, machinery and equipment, in order to produce a large volume of products during these peak years. It would, therefore, be considered a sound practice to carry this standard depreciation unit through this period, thereby setting up, at the end of 1930, an over-recovery on standard depreciation as compared to computed depreciation of approximately $575,000.00.

A further study at the end of 1930, based on forecasted production and depreciation five years ahead, and taking into account the over recovery of $575,000.00, indicated that a standard rate could be established below the prevailing $10.00 rate. The company, at this time, was in a period of relatively low production, intense competition, and it was, therefore, decided to establish a standard depreciation unit of $7.50 per ton which would be under the computed depreciation amount by approximately the $575,000.00 over-recovered in the previous years. This decision would be justified as a forecast of production and computed depreciation beyond 1935 indicated that the computed depreciation would be approximately $7.50 per ton.

This record indicates that it would have been sounder costing and accounting practice to have operated on a standard depreciation basis during this period than to have used a straight yearly percentage depreciation each year.

Method of Computing Monthly Depreciation Charge to Operating Cost and Credit to Reserve Accounts

It would be necessary to charge to operating cost each month, and credit to the proper reserve accounts, the standard depreciation applicable to the month's production.

The computed depreciation, based on capital account costs multiplied by depreciation percentages in use, equals $400,000.00 per year. Normal production is determind as 40,000 tons per year.

Standard depreciation unit is, therefore, $400,000.00 divided by 40,000 tons equals $10.00 per ton.

Depreciation charges in a representative month might be 2,000 tons at $10.00 per ton equals $20,000.00, or 60% of computed depreciation.

The plant expense accounts would, therefore, be debited and reserve acounts credited with 60% of the computed depreciation amounts.

Application of Standard Depreciation Recovery to Reserve Accounts and Record on Each Asset Item

A record should be maintained showing, on each class or group of asset and in total, monthly computed depreciation, standard recovery and under or over recovery for period to date.

At the end of each year, the total standard depreciation recovered during the year divided by the computed depreciation for the year, would equal the percentage of computed rates recovered in costs, which might be 60%. This computation would be made on each class or group of like assets.

60% of the depreciation percentage rate would, therefore, be the percentage to be used in computing the amount of depreciation set up during the year on each capital account item. If the computed rate was 10% then depreciation set up during the year on basis of standard unit would equal 6%—(60% of 10).

It is essential, under any basis of depreciation, to carry a control record showing in total and by class of assets, the total cost and reserve. It is also necessary to carry a record on each asset item, showing cost and reserve to date. The total of these individual records must tie in with the control accounts.

The percentage applicable to each class or group arrived at as outlined above would be used to compute the amount of depreciation provided during the year, on each item of fixed assets. Depreciation should be discontinued on any item as soon as the amount set up is equal to cost.

The standard depreciation method outlined is recommended as a definite step towards more accurate costs. It should level off the a sounder cost basis resulting in companies entering low volume peaks and valleys in business due to business decisions being based on years in relatively stronger financial position. We should look back over the past ten years and endeavour to picture whether results might have been more balanced, financial losses less drastic, and human suffering less severe if depreciation policies had been more generally patterned in line with the suggested practice.

Cost Accounting In Life Insurance Companies

By G. FAY DAVIES

The Northern Life Assurance Company of Canada

(Before Montreal Chapter, Oct. 26, 1934)

THE privilege of defining exactly the topic to be discussed is usually granted to the speaker and I have presumed to exercise this privilege. In consequence, we shall dispense with a consideration of ordinary life insurance accounting either in principle or practice and instead shall confine ourselves entirely to cost and its relation to accounting. We shall carry that relationship a step further and relate cost accounting to management.

Good management requires the constant exercise of good judgment and good judgment necessarily requires good information. Someone—I have forgotten his name—has said that man's judgment is no better than his information. A purpose of cost accounting is to furnish accurate and logical information which in turn will enable management to exercise good judgment and thus give management the ability to formulate wise decisions.

There is a difference between an accounting system and a cost accounting system. An accounting system asks money where it went; a cost accounting system tells why it went and thereby helps to build

a budgetary system and a budgetary system, in turn, tells money where to go. A need for cost accounting, consequently, implies that there is need for some plan which will tell money where to go. Let us now discuss some of the reasons why we have need in the life insurance business for a plan or system which will tell our expense money where to go.

Some General Features

At the beginning it may be well to explain some of the general features of our business which affect our need for cost accounting. Our business provides cooperative financial assistance to individuals on a pre-arranged basis. This financial assitance is provided upon the happening of certain events. One of these events may be the death or survival of an individual during a definite period of time. The basis of our business is, of course, a knowledge of what is likely to happen to a group of people whose lives are insured. We sell a contract wherein the policyholder promises to deposit regularly with the life insurance comany a sum of money for a definite period of time. In return, the Company agrees to pay to the policyholder a definite sum of money upon the happening of a certain event or events. We may agree to pay his family a stipulated sum of money if he dies or we may pay under a variety of contingencies. It will occur to you, I am sure, that we carry on our books a large number of such incompleted contracts. Each contract indicates a large future liability and is evidence also of a large future asset. The future liability is the possibility of payment of benefit and the future asset is the possibility of receipt of premium payments if the events which are associated with benefits do not occur. Ordinarily these future liabilities and future assets are cancelled out and the difference only is carried into our books as liability.

We accept an agreement to receive certain future premium payments which have a definite present value as an asset. We give in return an agreement to pay which, in turn, has a definite present value as a liability. At the beginning of the contract these two sets of present values should be equal excluding the amounts required for expense. However, as the policy contract grows older the present value of future premium receipts naturally becomes less whereas the present value of future payment of policy benefits becomes greater. Since the assets must be equal to the liabilities, the difference—which is called actuarial reserve—must be on hand at all times in the form of tangible assets. In a sizeable life insurance company these specific assets amount to a very large sum of money. Thus a life insurance company is in the investment business. Not all policy contracts, however, have such reserves. Policies of different years of issue may have different amounts of policy reserve. Also the type of policy contract may vary appreciably the amount of reserve attached to each policy. For these reasons the proportionate amounts of life insurance and investment in different policy contracts may vary widely.

This policy reserve is a definite feature of most policy contracts and, consequently, the amount of interest earned on this reserve affects the rate which must be charged to supply the insurance. For this reason the probability of earning interest for periods of time well into the future becomes an important factor in estimating life insurance premium rates.

In addition, it becomes apparent that a life insurance company requires the services of specialists who are able to evaluate the prob-

abilities involved in assuming these life risks. These specialists must not only be able to estimate the basic premium rates necessary to meet the obligations created by the risks which are assumed but also they must be able to evaluate at regular intervals the liabilities created by the policy contracts. Moreover, they must be able to tell us how the risks now being accepted compare with those for which the premium rates were intended to apply. The specialists who handle this work are actuaries and the work which they carry on is described as actuarial art science.

So much for general background. The real heart and soul of the business is the intention and purpose of the large group of policyholders who own insurance policies and who continue the payment of insurance premiums. The task of devising plans by means of which life insurance may serve people's needs is very important. Equally important is the work of educating people to the value of life insurance. Moreover, something more than education is needed since people must be persuaded to undertake and to maintain policy contracts. Unless this selling work has been successfully performed there can, of course, be no life insurance business.

In addition, there is the immense amount of work involved in keeping accounts and records of all of these financial transactions. Since each payment on each policy contract is a separate transaction, it can be seen that the amount of clerical work involved in handling a large amount of business is enormous.

So far we have mentioned several functions which create expense. There are many others but for our purposes these need not be enumerated further in detail.

The Origin of Expense Money

Where does the money to meet these expenses originate? Naturally all of the expense in a life insurance company must be met out of the premiums collected by a life insurance company or from other income. In theory, these expenses are met from an extra charge which is added after the original or basic premium has been calculated.

The point which can be emphasized here is that a premium can be divided into two parts; first, that part of the premium which is used to provide benefits for the policyholder under the terms of the policy contract and, second, that part of the premium which is used to provide for expense. We shall deal with these two parts separately. First let us discuss the part which is used to provide benefits for the policyholder.

I am sure that every person, whether in or out of the life insurance business, will agree that the premiums rates which are charged to meet the payments caused by death or maturity should be adequate. The nature of the trusteeship imposed on life insurance companies is too important to be treated lightly. The management of life insurance companies should make sure that, so far as interest rates and death losses are concerned, the margins allowed in the premium rates should provide for adequate safety. I think that this opinion is held by all life insurance men and by most policyholders.

This thought—maximum possible safety—has been constantly in the minds of management and, while this attitude of mind is entirely necessary, out of this has grown some practices which are worth serious consideration.

Some Important Considerations

First, we have not been careful to separate the income and disbursements connected with that part of the premiums which is designed

to meet policy benefits from that part of the premiums which is designed to meet expense. Consequently, we have adopted a practice of allowing large margins not only for the probabilities involved in mortality and interest but also for those factors which are affected by controllable expense. In other words, we have come in our business to consider large expense margins an accepted practice.

This general belief in wide expense margins is not entirely responsible for the situation which I am about to describe. For reasons which are largely historic we began originally to base our premium rates on mortality tables which provide for a much more rapid death rate than we actually expect to experience. We also allowed for an interest earning which was—and is—much less than we now experience. As a result, we have come to expect that a large part of our expense will be met from surpluses left from premium income or investment income which have theoretically been allotted to meet death losses or maturity payments. In consequence, our accounting has become hopelessly mixed and we have come, in time, to look upon a huge "mortality" or "excess interest" profit as a sort of blessing which falls upon us annually and which can be relied upon to help us meet many of our financial misfortunes. In reality, our death losses may be exactly what we anticipated that they would be or, in fact, they may be somewhat more than we assumed when our rates—and expense margins—were first estimated. In spite of this actual deficit on expected death losses our theoretical accounting system may still show a large "mortality" gain.

Not only has this served to enhance the apparent value of "mortality" profit but it has created an illusion that expense control is unimportant. More serious still, it has made our accounting so cumbersome and so intricate that sound and accurate cost accounting is extremely difficult if not altogether impossible.

In addition to these considerations, we labour under another handicap which adds to our accounting difficulties. Our income statement is greatly enlarged by income which is earmarked for investment. This income may be derived directly from investment or it may be that portion of premiums which must be set aside into reserve. As a result of this investment money the income and disbursement statement of a stabilized life insurance company gives the impression that expense is of little consequence. In fact, there exists a generally accepted belief that, in a well-managed life insurance company, expense is relatively unimportant. Some figures may serve to illustrate the reason for this general belief.

Here is a company—an exceedingly well-managed company, incidentally—which for the year 1933 shows the following results in round figures:

Total Income		$ 62,500,000
Disbursements		
Payments on policy contracts	$ 29,650,000	
Dividends to policyholders	11,270,000	
Taxes	1,175,000	
Management expenses	6,480,000	
Miscellaneous	1,375,000	
		49,950,000
Income over Disbursements		$ 12,550,000

As we examine these figures we see that total expense is only about ten per cent of total income. In fact, total management expense

is only 57.5% of total dividends to policyholders. If, therefore, by some miraculous method we could totally eliminate expense it would appear that we could increase our dividends by only 57.5%. In fact, a twenty percent reduction in expense would increase dividends by only 11.5%. A study of such comparisons might easily lead us to the conclusion that expense savings are of minor importance to a life insurance company. If we reach such a conclusion we must believe also that investment care and risk selection are our most important considerations and we shall, of course, then proceed to build our management policy accordingly.

As a matter of fact, such a belief commonly exists and gives rise to many expressions such as the following, "What's the use of fussing about expense, You've spent the money, haven't you The only thing you can do with expense is to reduce it. Fussing with expense is like trying to remember which pocket you took your money out of. The money is gone, why worry about it? Even if we did save a little money, it wouldn't help us much."

A Fallacy and its Origin

Such expressions, needless to say, are evidence of the foregone conclusion that cost accounting is of little value and can serve no useful purpose. The errors in thinking which leads to this fallacy are natural ones and I shall attempt to point out how some of these errors may occur and to make clear that, on the contrary, expense control is very important and that cost accounting is immensely important also.

One of the reasons for the error in the fallacies mentioned arises, possibly, from the fact that the commodity in which we are dealing is money and our expense becomes small when compared to the large amount of money which passes through our hands. In a similar way, a bond house must find, for example, that its clerical costs are infinitesimal when compared to the total volume of business in dollar value which passes across its books. Nevertheless, a bond house cannot neglect to watch its clerical expense if it hopes to make a profit on the very small expense margin which is allotted to it. The point of this comparison is that we must base the importance of expense on the margins which have been allotted for expense rather than on the total amount of money passing through our hands.

For example, if we take out of a life insurance company's statement all of the income which is derived from investment and also all of the money which is "earmarked" for policy dividends we shall have reduced the total amount of income appreciably. In the remainder of the income items there will still be considerable income which must be set aside for investment reserve. This will not be excluded in our comparison. Even with these exceptions the relation of management expense to income for the company shown is 19%. This percentage is sufficient to show that expense really is important. Moreover, not all companies are so fortunate and following is a table showing the figures for some other companies selected at random which have been prepared on a similar basis.

Ratio of Expense to Adjusted Income

No. 1	38%
No. 2	32%
No. 3	40%
No. 4	42%
No. 5	30%
No. 6	24%
No. 7	40%

It can be readily seen that expense in the case of these companies is quite important.

In addition, it must be remembered that a life insurance company's annual statement is not exactly similar to an ordinary company's statement. For one reason, each year's business does not represent a group of complete transactions. An annual statement of a life insurance company represents merely the effect of one year upon a number of incompleted policy contracts being carried on the books.

Almost the entire business of a company is made up of incompleted contracts. Moreover, each year of a policy contract presents a slightly different picture from an income and a disbursement point of view. Therefore, we can see that often the year which shows the smallest increase in surplus may actually have created the greatest eventual profit due to an amount of good business which my have been put on the books during this period.

One year in the financial history of a life insurance company is a short period. To get a true picture of a life insurance company's progress it is necessary perhaps, to survey a ten-year period.

During the year shown, and for the company shown, the result we have seen shows an apparently small ratio of expense to income. Next year the amount of new business may be greatly increased and the expense items may be increased to the point where these ratios make expense appear quite important. When a company is in process of formation its expense will be large in relation to its income. If it writes large amounts of term or low premium business, its expense is likely to appear large in relation to its income. If a company sells a great amount of high premium business with a large loading for the payment of policy dividends its ratio of expense to income will appear small. When it has a large amount of business on the books and the volume of new business falls off appreciably, the ratio of expense to income will appear small. All of these factors affect the ratios of expense to income and yet these factors have no relation to the importance of expense. Expense is just as important to the company when it is merely holding its own in business in force as it is to the company which is building up its business rapidly. This in spite of the fact that the ratios in such different circumstances might indicate otherwise. Such ratios as we have studied, showing expense and actual income, can be very misleading and should not lead us to any erroneous conclusion that expense is unimportant.

The Lack of Proper Separation of Accounts

The lack of good cost accounting in life insurance practice creates an illusion that expense is unimportant and this is only one of the disadvantages of our system. A further failure of the system is the fact that since expense money is derived from so many different sources it is difficult to relate expense to definite functions and, in consequence, we do not always equalize benefits between different types of policies or between different groups of policyholders.

For example, it has long been a practice in life insurance companies to cover investment losses, if any, by a general deduction from surplus rather than by a specific deduction from interest earnings. The effect of this, of course, is to provide an excellent investment return to the policyholder with large reserves on his policy although a very considerable portion of the general surplus which was used to maintain investment values may have been derived from earnings on policies where little or no investment reserve was involved.

For example, we can find record of a company with some twenty five millions of assets which recently marked down these assets by a

million during a single year. If this amount had been deducted entirely from interest earnings it would have meant a drastic reduction in interest rates for several years. In place of this the reduction was made in one year's general surplus.

The privilege thus available to life insurance management makes a life insurance company one of the safest of all financial institutions. I am not complaining about the privilege; I am complaining about the abuse of the privilege. The situation is comparable to a trust company which operated also a very profitable oil business and used the profits of the oil business indiscriminately to make good the losses incurred in investments. As a matter of fact, this privilege is one of the strong points of life insurance. If investment losses occur the profit from the general life business can be used to cover these losses and, on the other hand, when heavy death losses occur—as during the influenza epidemic—the surplus from investment accounts can be used to take up the slack. This privilege is an excellent one but the accounting system should show exactly the amounts which are being earned by each department of the business and if transfers are made from one department to another they should be made with the complete knowledge of management. It is apparent, of course, that accurate cost accounting is necessary if such information is to be obtained. Cases have been reported where management has unconsciously transferred amounts from one department to another—as, for instance, from an ordinary branch to an industrial branch — without being fully aware that such transfers were being made.

Some Possible Inequalities

Such accounting difficulties can create a situation where different plans of insurance do not bear their own weight. There are many who believe, for example, that the investment contracts now being sold by life insurance companies are being offered on too liberal a basis. After telling you that life insurance companies offer the safest possible investment, and since I am now hazarding an opinion that our investment contracts are being offered on too liberal a basis, I hope that you will not immediately rush out and attempt to buy such a contract. It is only fair to state to prove my point that it will be very easy to find a company which will sell such a contract to you. The point which deserves emphasis is that we should know exactly where we stand with each contract we sell and guess-work with respect to relative profitableness should be eliminated. Our need is caused by the absence of a good cost accounting system which will give us accurately the information which we require.

The cost accounting problems of a life insurance company are not simple. If they were there might be some excuse for our failure to improve our system.

Some Expense Origins

Expense in a life insurance company is created by several functions. We have a general executive and administrative function. We have an office staff to record transactions and to keep accounts. We have several specialists; mathematical, medical, and legal. We have collection machinery to provide for the collection of premiums. This collection machinery—or part of it—sometimes located in the field. We have an active sales organization. This organization is essential because the policy contracts on our books naturally mature and go off our books and must, therefore, be replaced by other new policy contracts. All of these functions create expense and this expense must be paid out of expense allocations. If we made a standard product and sold it in unit transactions our problem of expense division

might be simple. On the contrary we sell a great variety of different policy contracts. We have difference in age, in type of policy contract and, consequently differences in premium, in maturity date, and in many other respects. Moreover, these contracts must not only be sold but they must be maintained. We have, therefore, many varied problems of expense distribution.

Some Problems of Expense Allocation

We have the problem of dividing expense between new and renewal business. By new business we mean business in its first policy year. By renewal business we mean business beyond its first policy year. Some forms of expense appear to be easy to divide since they are very definitely allotted on a percentage of premium basis. Other forms of expense, such as executive and general administrative expense, are very difficult to allocate. I shall not attempt here to advance arguments showing how such expenses should be allocated but I shall point out some inequalities which may arise from faulty or careless allocation. Let us assume, for example, that we allow too much of our expense to new business. By doing so we do not charge any figures in our annual statement. Moreover, under exactly similar conditions our subsequent annual statement would be exactly the same. The trouble arises when we arrive at faulty conclusions due to our wrong division of expense. There are a great many factors which may affect the profitableness of business and, in an endeavour to reconcile all of these factors, we have devised a method which we call the "asset-share" method. This method is used to ascertain the profitableness of a selected group of business. When using this method it is necessary to allocate expense quite definitely. If we assume that, through faulty cost accounting, we allocate our expenses definitely but inaccurately we shall, of course, arrive at a wrong conclusion and we, as a result, may raise certain premiums or lower other premiums and find later that the profit results which are subsequently forthcoming are not as we anticipated. In this event our effort will not only have been in vain, but it may lead us in an entirely wrong direction.

A purpose of expense allocation is to determine with reasonable and practical accuracy the premiums we should charge for out policies. It will then be seen that we shall fail emphatically in this purpose if our basis of allocation of expense is fundamentally unsound. If our basic assumptions are unsound then all subsequent conclusions are likely to be unsound also. A comparable situation would be to estimate the number of cattle in a field and estimate also the size of the field and then calculate the number of acres per animal to four decimal places. Such mathematical exactness on such an approximate set of assumptions would be an absurdity. Poor cost accounting can lead us close to this situation in any business as well as in our business.

We can bring about some quite important inequalities in our division of benefits due to a faulty basis for the allocation of expense. A large part of a life insurance company's expense may be divided in either of two ways. We may either divide it on a per thousand basis or on a per policy basis. Generally speaking, all expense which does not vary with the unit size of policy should be allocated on a per thousand basis. General administrative expense would come under this heading. The salaries of heads of departments would also come under this heading. On the other hand, per policy expense should be limited to those expenses which vary directly as the number of policies units varies. For example, clerical expense inside departments, expense relating to the handling of records or policies, may properly be on a per policy basis. If our expense division on this basis is not pro-

perly allocated we may find that we arrive at a conclusion that a change in policy size will affect our profits. This improvement appears so important that we undertake a programme designated to take advantage of this fact only to find that the actual result of our change is much different from the result which we anticipated.

Faulty division of expense may occur between various ages of one type of policy. For example, an ordinary life premium at age twenty five may be $15.60 per thousand; at age fifty-five it is, let us say, $46.70. A two dollar expense charge at age twenty-five represents fifteen percent of the premium and only five percent of the premium at age fifty-five. Provided the basic premium rate is sufficient in each case to provide adequately for death losses and increases in reserve, is there any reason why a man at age fifty-five should contribute more to expense than a man age twenty-five. The same apparent discrepancy can occur if we divide expense entirely on a percentage basis. In that case we appear to be overcharging the higher premium plans and undercharging the lower premium plans. As an alternative we could allot expense to a particular plan on a per thousand basis and then average the premium within the plan and at all ages, use the percentage rates, thus developed from the average premium.

Three methods are mentioned here. All three methods would, with the same assumptions for mortality and interest and with the same estimated expense, give us different premium rates at practically every age. I think that we might fairly and justly reach the decision that all of these premium rates cannot be equitable.

Allocation and Measurement

It can also be argued, I believe, that there is a difference between the measurement of expense and the allocation of expense. It has long been a practice in life insurance to pay for a large part of selling work by a commission method. In certain types of company organization—commonly called the general agency system—the expense for selling purposes is derived largely from a commission basis. Since much of the commission under this system is derived from commissions on old business, the selling expense is thus chargeable largely to old business. On the other hand, there is another type of agency organization, called the branch office system, and, since this system is supported largely on a salary basis, the greater part of selling expense is commonly charged to new business. Two companies which are equally economical in selling and management expense might thus show entirely different expense allocation due to the difference in type of company. It can be contended with some justice that the commission basis of compensation is merely a method for measuring expense and may, or may not, be a sound basis for allocating the same expense. The usual practice in life insurance is to divide expense as it is measured by contract.

I have here enumerated several situations in life insurance where expense allocations, if handled inaccurately, can create inequalities and can lead to unsound conclusions. There is wide difference in actual practice on these points accompanied by wide differences of opinion and this fact will establish, without further comment, the need for better cost accounting in our business. This need is emphasized even more when we observe the relatively small amount of study which has been given to this important subject.

Estimating Future Results

Mention has already been mdae of the "asset-share" method of determining the profit on a selected group of business. When pre-

miums are calculated originally the assumption is made that all policies will persist to maturity. This maturity can arise either through death or by the passage of a definite period of time. In actual practice, policies may terminate as a result of many additional causes. Many policies terminate through the sheer inability of the policyholder to carry through his contract due to changed financial circumstances. In other cases, policies may terminate because of natural human improvidence. As a result of this voluntary type of termination, the actual profit results from a definite block of business may be quite different from the results obtained when only the death losses and endowment naturities are taken into account. The "asset-share" plan is intended to meet this situation and is a method which assumes that all of the variable profit-creating factors will be thrown into one set of calculations based on a group of assumptions and, as a result, the profit on a group of business can be determined for periods of time well into the future. The principle of the plan is to trace the financial history of a selected group of business for a period of time—say twenty years. It will be obvious, of course, that in order to do this it will be necessary to segregate the expense which should apply to this group of business. It will be obvious also that there will be many separate assumptions made and that the method at the best will be approximate.

Two objections make the method unsatisfactory as a sound cost accounting method. First, under this plan, the need for accurate division of expense is so important that unless this has been carefully done the results are likely to be wholly inaccurate. Second, if margins are left for safety in each item the result will be so far from probable experience, due to the accumulation of these margins, that the method becomes useless except as a very rough approximation. Also the method has the disadvantage that it represents a projection of twenty years' experience on the business originating during one year, whereas a life company's annual statement represents one year's experience on the business originating in many different years. In consequence, the results of the "asset-share" method will not show the probable affect of the business upon any particular annual statement. The method, consequently, has many weaknesses.

A Need

We have need for improvement in the methods used to relate the effect of varying factors which affect the quality of our business to the ultimate profit or to the premium rates which we should charge. This is a job for a cost accountant.

Equalizing Benefits

We have mentioned already that a premium is divided into two parts—that part of the premium used to provide policy benefits and that part of the premium used to meet expense. The expense part of the premium is spread out over the whole of the premium paying period of the policy whereas a large part of the expense is incurred during the first year of the policy. As a result, the first year usually creates a deficit on expense account and it is planned that this deficit will be liquidated as subsequent renewal premiums become payable. The problem arises as to what should be done if the policy does not persist during a sufficient length of time for the initial expense to be repaid. The usual solution of this problem is to make a deduction from the investment reserve of each policy during the early policy years in the event of termination. This method is sound but it immediately becomes apparent that it is necessary to know exactly how expense should be divided in order that the interests of the with-

drawing and the surviving policyholder may be equitably treated. Most policyholders buy their life insurance in good faith and intend to carry it through to maturity. However, through no fault of their own, they may be compelled to withdraw earlier than they anticipated. It should be the purpose of life insurance management to see that such a policyholder does not withdraw any money which is not rightfully his and also to see that he is not penalized for the benefit of the policyholders who persist. Sound and accurate cost accounting is essential if such equitable treatment is to be determined accurately.

Equalizing Policy Dividends

There is a type of life insurance which is called participating or profit-sharing insurance. The feature of this business is that an excess premium is charged above the premium actually required and this extra premium is returned to the policyholder in varying amounts from year to year in the form of a policy dividend. The term "dividend" is a misnomer but it is commonly used for this purpose. A feature of this dividend distribution is the increase in the size of the dividend as the policy grows older. The change in this dividend, consequently, affects the relative interests of the withdrawing and the persisting policyholder. Accurate cost accounting is essential if these respective interests are to be equitably treated.

The Fallacy of "Net" Cost

Complicating both of the features just mentioned we have the common practice of some companies and life insurance salesmen who attempt to show the relative "cost" of life insurance by showing the probable experience on a given policy over a stated period. The period usually chosen is twenty years. If, as a company, we wish to show a particularly favourable twenty year result on such a basis, we can proceed to affect this result by a very simple method. We know that only a very limited number of policyholders will withdraw exactly at the twentieth year. Some policyholders will have withdrawn before that time and some will persist beyond the twentieth year. We can, herefore, by a deduction from each of the policyholders withdrawing before twenty years and by a contribution from each of the policyholders persisting beyond twenty years show an excellent twenty year result and perhaps we can then claim that our company is the "best" company. Such a satement would, of course be absurd. Since this general practice is rather common I would suggest that the next time you are shown a statement purporting to show an extremely favourable twentieth year cost that you view it with small concern. The true cost of life insurance is the average cost to the average policyholder and this is a comparative statement which is extremely difficult to obtain. If I were looking for a good life insurance company—provided the other factors involved in good management were even reasonably comparable—I believe I would choose the company which was making an earnest endeavour to master its cost accounting problems and to know where it was headed financially all the time. Such a company would, of course, need to have a sound cost accounting system.

I think that we may say also that unless a company has a much better cost accounting system than those generally used it cannot hope to dispense equitable treatment to all of its policyholders. A part of the buying public has somehow developed a weakness for ceverly and plausibly constructed comparisons designed to prove that one company is better than another. So long as the salesman is honest and the facts which he uses are genuine he cannot be blamed for using whatever tools may be available to him. Any company, however,

which becomes a party to such practices by benefitting one group of policyholders at the expense of another group to make a favourable "net cost" showing cannot expect to remain above criticism. To do such a thing deliberately would certainly not be right. To do it through ignorance—because of absence of a sound cost accounting system—is, in my opinion equally blameworthy. It seems, therefore, that good cost accounting is an, ethical necessity.

Life insurance—The safest Investment

By reason of many unique conditions a life insurance company is one of the safest of all financial institutions. In the first place—as has been mentioned before—it combines investment service with insurance service and adopts a practice of throwing all surplus earnings into a common fund. It draws upon this fund for emergencies. During epidemics which increase the death rate the general reserves arising from all sources may be used to provide for this emergency. Recently, for example, when investment values declined, the same general reserves were used to provide for investment depreciaiotn. If our plans do not work out and our expenses mount rapidly and unreasonably, these same general funds can be used to cover such losses. In other words, like the doctor, we can bury our mistakes. If this power to use surplus is not allowed to become a cloak for inefficiency, it offers an unusual safeguard and makes life insurance unusually secure.

A second unusual factor of safety which is available to all participating companies is the excess loading which is added to the basic premium which later may be returned to the policyholder in the form of policy dividends. These dividends can be reduced if any one of the three factors—mortality,—interest earnings or investment depreciation, or expense estimates—should exceed expectations. In such an event, these dividends may be used to offset emergency stituations.

A third safeguard is the fact that renewal business is less expensive than new business when all items of cost are allocated. As a result, when business conditions are bad, new busines volume decreases and surplus earnings increase. Moreover, a company which encounters a shortage of surplus can materially reduce new business and, by this method, rapidly restore its surplus.

A fourth great safeguard is the fact that the life insurance business is under the active supervision of government legislation. Time has given us a set of regulatory measures which have become a minimum standard for management. Almost all companies carry their management safety factors far beyond the minimums required by law but these regulations act as an assurance for the life insurance. A further advantage of this feature of our business is the fact that life insurance annual statements are public property and all companies are thus under the watchful eye of their critics and competitors. It is only fair to state, however, that the requirements of government regulation make it necessary for life insurance companies to carry their accounts in the form which is required by law and thus life insurance accounting is built more to make reports to governmental authorities than to make reports which might be useful to management. It is to be hoped that time will remedy this situation.

"Short-circuiting" Management Information

A disadvantage commonly found in life insurance organization is the sharp line of distinction which is usually drawn between the sales department of the business and the department which nominally takes care of the cost accounting. In life insurance, the actuary has come in time to assume a large part of the responsibilities usually allotted

to a cost accountant. In reality an actuary is not a cost accountant and the more able actuaries do not pretend to be qualified as experts in this field. The work which the actuary must do is tremendously important. It is his business to be conservative and he has earned a great debt of gratitude for his successful endeavour to keep basic premium rates adequate. There is, however, more to rate making than mere conservatism. No one will argue that basic rates should be sufficient to provide for probable mortality and for the effect of interest earnings. No one is better qualified to speak of these important factors than the actuary. These are matters which are within his special province and they should remain there.

On the contrary, the problem of allocating expense, the problem of budgeting for expense, the problem of relating expense to performance and of relating expense to sales, are matters which must be decided in large part by those who know the functions which create expense and who know what expense money can do and what it may fail to do. A mistake commonly made in life insurance is to allot expense control to an officer of the company whose chief concern must necessarily be to be conservative. He must necessarily be conservative because, under this plan of organization, he will be attempting to work with a man—the sales mnager—whose sole instructions may have been, "Get the business". If this sales manager attempts to do what he is told he is most certainly headed for trouble. Under such a plan the natural course of action for the officer who is responsible for expense control is to set up margins which are ridiculously ample. He feels that with such safeguards he can then sit back with a complacent air and say, "Now, let's see how the sales manager can produce." The weakness of this plan is that it disregards the delicate balance between price, cost and sales which exists in all businesses including life insurance. From the bargaining which is observed in the market place to the competitive bidding which precedes the placing of the forty-million-dollar contract, volume of sales, expense, and price are inter-related and any organization plan which overlooks this fundamental fact will not persist indefinitely. There are four factors in life insurance management which are definitely related—volume of sales, quality of business, expense, and price. The thoroughly sound management plan must have a system of accounting which relates each of these four factors accurately and continuously.

The Purpose of Management Information

The problem of selling new life insurance is a very difficult one and a very important one to a life insurance company. It has been said, in fact, that this constitutes a life insurance company's only truly serious problem. Once a company is assured of the production of all the good new business it needs at a reasonable cost the other problems which may arise are comparatively simple. It is essential, therefore, that this phase of a company's operations should receive the maximum possible assistance from the other departments of the company. This will only be true if volume of sales, quality of business, expense, and price are tied together in an aggressive sales programme operating under the joint control of a sales manager and a cost accountant.

The Ideal Plan

Perhaps the germ of the ideal plan lies in a system which will put the actuary as such in charge of mortality and interest earnings and make him responsible for the affect of these factors upon basic premium rates. The remaining factors which affect management should be the joint responsibility of a cost accountant and a sales manager. Through such a system the full abilities of all concerned can be utilized.

Possibly a feature of such a system will be a careful separation of the basic premium which is allotted to policy benefits from the premium which is apportioned for expense. A careful separation of these two types of income and disbursements carried right through the accounting system would help greatly in clearing away many of our difficulties.

The Time Factor

I have said that life insurance is one of the safest of all financial institutions and that the features which create these safety margins operate almost automatically. These conditions have helped us to create a record for trusteeship of public funds of which we are very proud. These facts may also have lulled us into a state of self-complacency. It is a well known fact that prosperity is an enemy of progress. It has been said also that the way to change a radical is to give him a good job. On the contrary, the man who is most adverse to change or improvement is the man who now has a good job. These peculiarities of human nature possibly slow up the improvement in our cost accounting which is long overdue. The life insurance business is a very stable business. In this business we are always building for the future. It is difficult and, in fact it is almost always inadvisable in life insurance to seek for quick results. The work which is being done this year will yield its real results perhaps only after several more years of constant operation. For this reason, a company can "coast" along on an abnormally high expense rate for years before the effects become apparent. In the same way, a company can embark upon a programme of improvement and work away for months and even years before results become apparent. Such a peculiarity, as you can imagine, makes a need for change much less immediately apparent but, at the same time, it makes a knowledge of the relation between cost and eventual profit very, very important.

In spite of all these conditions, I feel that the day is rapidly coming when we shall welcome the cost accountant into our companies and say to him, "Here is a job which you can do". Here and there we find companies which are recognizing the importance of this work and they are setting up in the management circle an officer whose sole duty it is to master these cost accounting problems. One of his jobs is usually to create and to administer a budget. That same action is not far off for all companies and, when that day comes, the life insurance business will begin a new march forward to newer and still bigger records.

TARIFF and TAXATION

DEPARTMENT OF NATIONAL REVENUE

Departmental Rulings

Wire roofing nails, per sample, fitted with lead caps or washers around the heads. Tariff 430e.

Electric Snack Server, per illustration, an electric hot water dish which keeps food hot for hours without cooking or burning. Not admissible under tariff item 443, not being designed for cooking, but only for keeping food warm, which has been previously cooked.

The Perfected "Pres-to-Logs" machine, per illustration. Tariff item 416 when imported by a manufacturer of fuel briquettes for use exclusively in his own factory in the manufacture of fuel bri-

quettes from dry sawdust, shavings, chips, and other waste materials.
Rooted geranium cuttings. Tariff Item 82 (e).

Ottawa, 9th January, 1935.

Supplement No. 3 to Appraisers' Bulletin No. 4150
Acids and Chemicals

In connection with the administration of Tariff Items 216 and 208t the following chemicals and acids should be added to list as given in Appraisers' Bulletin No. 4150 as made in Canada:

Ferric Chloride, liquid, 46-50%.
Nickel Sulphate, Technical or Commercial Grade.
Nickel Ammonium Sulphate, Technical or Commercial Grade.

Ottawa, 17th January, 1935.

The Intermediate Tariff Extended to Austria for Further Period of One Year

By Order in Council (P.C. 88) dated 14th January, 1935, the benefit of the intermediate tariff is extended from 1st January, 1935, to products originating in and coming from Austria when imported direct, conveyed without transhipment from a port of Austria or from a port of a country enjoying the benefit of the Preferential or Intermediate Tariff into a sea, lake or river port of Canada.

The Order in Council provides that this arrangement shall continue in force until three months after either party shall have given notice to the other of its intention to terminate it. Accordingly, the benefit of the Intermediate Tariff shall be exended to Austrian products, as provided herein, until you are otherwise instructed.

Ottawa, 17th January, 1935.

Tariff Change by Order in Council

By Order in Council (P.C. 5.), dated 14th January, 1935, the following regulation was established under the authority of paragraph (k) of Section 284 of the Customs Act, effective on and after 19th January, 1935:

Regulation

"The goods enumerated in the following Item, when imported for use in Canadian manufactures, as hereunder described, shall be subject to the several rates of duties of Customs, if any, set opposite the said Item, that is to say:

Sheet cellulose acetate, in rolls, when imported by manufacturers of sensitized photographic film, for use exclusively in the manufacture of sensitized photographic film in their own factories.

British Preferential Tariff	Free
Intermediate Tariff	Free
General Tariff	Free

(To be designated as Tariff Item No. 822).

Consolidated Departmental Regulations Governing the Marking of Imported Goods

(Section 16 and Item 1209, Customs Tariff)

Ottawa, December 15, 1934

Herewith is printed a Consolidation of Orders in Council and Regulations passed under the authority of Section 16 and Item 1209 of the Customs Tariff, pertaining to the marking of imported goods with an indication of the country of origin.

These regulations supersede Memorandum No. 9A, and supplements, and Memorandum No. 1664-B, all of which are consolidated herein.

SECTION 16, CUSTOMS TARIFF

16. (1) The Governor in Council may from time to time, as he deems it expedient, order that goods of any description or class specified in such order, imported into Canada, shall be marked, stamped, branded or labelled in legible English or French words, in a conspicuous place that shall not be covered or obscured by any subsequent attachments or arrangements, so as to indicate the country of origin; and said marking, stamping, branding or labelling shall be as nearly indelible and permanent as the nature of the goods will permit.

(2) All orders made by the Governor in Council under this section shall have effect from and after the day on which the same are published in the *Canada Gazette*, or from and after such later day as is appointed for the purpose in such orders, and during such time as is therein expressed, or if no time is expressed for that purpose, then until the same are revoked or altered.

(3) All such goods imported into Canada after the date of the coming into force of any such order of the Governor in Council which do not comply with the requirements of such order, shall be subject to an additional duty of ten per centum ad valorem to be levied on the value for duty purposes, and in addition such goods shall not be released from Customs possession until they have been so marked, stamped, branded or labelled under Customs supervision at the expense of the importer.

(b) If any person shall violate any of the provisions so established relating to the marking, stamping, branding or labelling of any such imported goods or shall deface, destroy, remove, alter or obliterate any such marks, stamps, brands or labels, with intent to conceal the information given by or contained in such marks, stamps, brands or labels, he shall be liable on summary conviction to a penalty not exceeding one thousand dollars, or to imprisonment not exceeding one year, or to both fine and imprisonment.

(5) The minister may make such regulations as are deemed necessary for carrying out the provisions of this section and for the enforcement thereof.

GENERAL REGULATIONS

1. The country of origin of a manufactured article is held to be the country in which the article has been finished by a substantial amount of labour amounting to not less than one-fourth the cost of production of such article in condition as imported into Canada.

2. Goods entered for immediate exportaton or in transit through Canada are not required to be marked.

3. When imported goods are found to be not legally marked, the Appraiser or other proper officer will note the fact on the invoice and the additional duty shall be levied accordingly.

4. The Appraiser or other officer will report all goods not properly marked to the Collector, who will notify the importer to re-deliver the unexamined packages or to arrange to mark the goods under Customs supervision.

5. Importers may be permitted to mark examined goods in Customs warehouse, or arrange for the marking of same under Customs supervision on their own premises.

6. Whether the markings found on goods in condition imported is as nearly indelible and permanent as the nature of the goods will permit is a question of fact to be determined in each instance by the Collector subject to the decision of the Commissioner of Customs.

7. If the importer fails to mark goods when called upon to do so by the Collector, the Collector may require the same to be exported,

and in default thereof, the goods shall be treated as unclaimed, dated from time of importation, and if sold, must be sold on condition that they be marked by the purchaser under Customs supervision.

8. The words "Made in," "Produced in," "Printed in," or other words of similar import, followed by either the name of the country or the name of the city and province, state or other division of a country in which that city is located and in which the goods referred to are produced, comprises a satisfactory indication of the country of origin. The name of a manufacturer or producer followed by the name of the country or a city or place and the province, state, or other division of the country in which that city or place is located, and in which the goods so marked are made or produced, will also be accepted as satisfactory. In the case of universally known large cities, such as London, Liverpool, Manchester, Birmingham, Paris, Berlin, Vienna, New York, Chicago, Boston, Philadelphia and Detroit, the name of the city without the relative state or province in combination with "Made in," "Produced in," "Printed in," and words of similar import, or with the name of the manufacturer or producer, will be accepted as satisfactory.

9. Articles imported and entered at Customs under any of the following Tariff Items are exempt from marking under Section 16 of the Tariff: 174, 176, 178 (b), 481, 690, 693, 695, 695 (a), 696, 704, 705, 706, 707, and 743. Articles of value as antiques or curios, imported by individuals for private collections, are also exempt from marking.

ORDERS IN COUNCIL AND REGULATIONS ESTABLISHED THEREUNDER

His Excellency the Governor General in Council, on the recommendation of the Minister of National Revenue, and under and by virtue of the powers granted by Section 16 of the Customs Tariff, is pleased to order and it is hereby ordered that goods of the description or class hereinafter specified, imported into Canada, shall be marked, stamped, branded or labelled in legible English or French words, in a conspicuous place that shall not be covered or obscured by any subsequent attachments or arrangements, so as to indicate the country of origin; and said marking, stamping, branding or labelling shall be as nearly indelible and permanent as the nature of the goods will permit.

Description or Class of Goods

1. Printed or Lithographed Matter of all kinds, including Books and Pictures, except Seals, Tickets and Labels, which are not capable of being marked legibly and each of which shall not exceed one inch in diameter, in which case the first Package or Covering shall be marked in compliance with the General Regulations.

   (Order in Council of 21st September, 1922 [P.C. 1938], as amended by Order in Council of 11th June, 1923 [P.C. 1046]).

Regulations

(a) Seals, tickets or labels, exceeding one inch in their greatest dimension, whether imported in packages or in strips, sheets or rolls, perforated or otherwise prepared for ready separation into single units, or intended to be used in such single units, must be marked with a satisfactory indication of the country of origin on each single unit.

Seals, tickets or labels, not exceeding one inch in any dimension, when imported in packages or coverings containing quantities of not more than 100 each, or in strips, sheets or rolls of not more than 100 single units, may be marked

with a satisfactory indication of the country of origin on the first package or covering, or on each strip, sheet, or roll.

Seals, tickets or labels, irrespective of dimensions, when imported in packages or coverings, or in strips, sheets or rolls, in quantities in excess of 100 units, are subject to the general marking regulations, and each seal, ticket or label, is required to be marked.

(b) Blind embossed or die-stamped indications of the country of origin on printed or lithographed matter imported into Canada will not be accepted as satisfactory compliance with the provisions of Section 16 of the Customs Tariff Act, except with respect to Christmas or greeting cards having thereon a blind embossed or die-stamped indication of the country of origin, satisfactory as to legibility and wording, and in a conspicuous position, which indication may be regarded as complying with the requirements.

(c) Decalcomania or dry transfers exceeding one inch in their greatest dimension, not including decorative, ceramic or enamel transfers, are required to be marked with an indication of the country of origin as printed or lithographed matter on each transfer; and in order that such indication of the country of origin shall be in a conspicuous position and as permanent as the nature of the goods will permit, as required under Section 16 of the Customs Tariff Act, the said indication is required to appear on the face of each transfer in such a manner as to be conveyed along with the transfer to the article to which it is intended to be applied.

Decalcomania and dry transfers not exceeding one inch in any dimension, and all decorative transfers, may be marked with an indication of the country of origin on the back or carrier portion thereof, or on each sheet or roll.

Decalcomania transfers known as "toy transfers" may be marked on each sheet, each book, or each package.

Imported ceramic or enamel transfers are not required to be marked with an indication of the country of origin.

(d) Ordinary printed or lithographed paper or other coverings, wrappers or containers, used merely to cover or contain shipments of goods consigned to Canada, are not required to be marked with an indication of the country of origin. (See "a" No. 7, and "e" No. 12).

(e) Printed or lithographed containers imported by a Canadian manufacturer to contain goods manufactured or produced in Canada solely for export trade, and printed or lithographed labels, stickers or wrappers, imported by a Canadian manufacturer to be attached to goods manufactured or produced in Canada solely for export trade, may be exempted from the provisions of Section 16 of the Customs Tariff Act, provided the importer (who must be the Canadian manufacturer) signs a certificate on the face of each entry as follows:—

The containers, labels, stickers or wrappers, described on this entry are imported bona fide by the undersigned manufacturer solely to contain or to be attached to goods manufactured or produced by him in Canada for export, and will be exported with such goods.

(f) Imported containers, labels or wrappers, printed or lithographed, intended to be filled with or used upon domestic products may be marked in such a manner as to indicate the

origin of the goods in their condition as imported, for example: "Label printed by John Jones, New York," thereby avoiding an improper imputation of origin in respect of the Canadian manufactured goods with which such imported containers, labels or wrappers are used.

(g) Printed or lithographed matter, imported in single copies, unbound, for the use of the imported and not for sale, for religious, philosophical, educational, scientific or literary purposes, or for the encouragement of the fine arts, may be delivered without being marked with an indication of the country of origin, under provisions of Section 16 of the Customs Tariff Act.

(h) Books may be marked on the inside or outside of the front or back cover, the first or last page, or the title page.

2. Wooden or Fibre Lead Pencils.
(Order in Council of September 21st, 1922 (P.C. 1938).)

Regulations

(a) Blind embossed or die-stamped indications of the country of origin on wooden or fibre lead pencils imported into Canada will be accepted as satisfactory. Coloured die-stamping may be used, provided that combination of colours used in the die-stamping and on the pencil does not result in an indistinct or illegible indication.

(b) The indication of the country of origin will not be accepted as satisfactory when such indication is within one inch of an end of the pencil which is or may be pointed.

3. Building Brick.
(Order in Council of 22nd September, 1926 (P.C. 1418).).

Regulations

(a) Each brick may be marked on any of its sides or ends, by any of the following methods:
    (1) By moulding or otherwise impressing or cutting into the brick in the course of manufacture.
    (2) By stencilling with a permanent ink: or
    (3) By rubber stamping with analine dye.

4. Rubber Gloves.
(Order in Council of 24th June, 1928 (P.C. 258/1069).)

5. Imitation Totem Poles and copies or replicas thereof.
(Order in Council of 20th May, 1931 (P.C. 1185).)

6. Empty Paper or Paper Board Folding or Set up Boxes or Cartons, and Empty Plain or Corrugated Fibre or Fibre Board Boxes, for use as Containers.
(Order in Council of 31st August, 1933 (P.C. 1795).)

Regulation

(a) The box maker's stamp, on the carton, will be considered as a satisfactory indication of the country of origin, provided same is not on a flap which is covered or obscured when the carton is set up.

7. Paper Bags.
(Order in Council of 1st February, 1932 (P.C. 184).)

Regulations

(a) Paper bags, used merely to cover or contain shipments of goods consigned to Canada, are not required to be marked. (See "d" No. 1, and "e" No. 12.)

(b) Glassine bags are subject to marking.

8. Tooth Brushes and Tooth Brush Handles.
(Order in Council of 1st February, 1932 (P.C. 183).)

Regulations

(a) Celluloid blanks for the manufacture of tooth brushes and tooth brush handles not further manufactured than moulded or pressed are not required to be marked.

(b) Die-stamped indications of the country of origin on tooth brush handles imported into Canada will be accepted as satisfactory, provided same comply with the requirements as to legibility and location.

9. Toilet Paper in Rolls, or in Interfold Packages.
(Order in Council of 31st January, 1934 (P.C. 181/193).)

Regulation

(a) The indication of the country of origin is required, whether the imported toilet paper is labelled or unlabelled.

10. Razor Blades (Safety Type).
(Order in Council (P.C. 2505) of 11th October, 1934, effective on and after 1st January, 1935.)

Regulation

(a) Razor blades may be marked by means of etching or die-stamping.

11. Boots, Shoes and Slippers.
(Order in Council (P.C. 2505) of the 11th October, 1934, effective on and after 1st January, 1935.)

Regulation

(a) Boots, shoes and slippers may be marked on one or both of each pair.

12. Paper Envelopes.
(Order in Council (P.C. 2505) of 11th October, 1934, effective on and after 1st January, 1935.)

Regulations

(a) Paper (including glassine) envelopes, when imported enclosed in bands, wrappers, packages or boxes containing quantities not exceeding 100 envelopes, will be considered as satisfactorily marked if the indication of the country of origin appears on the first or immediate band, wrapper or other covering. Should, however, envelopes be imported in individual packages which contain more than 100 envelopes, each envelope will be required to be marked.

(b) Envelopes enclosed in boxes or packaged personal or social stationery may, irrespective of quantity, be marked on the first or immediate box, packaged, or other covering.

(c) In the case of greeting cards imported in boxes or packages with envelopes in equal quantity to match, the envelopes will not be required to be marked, provided each greeting card bears a satisfoctory indication of the country of origin.

(d) Blind stamped indications of the country of origin will be accepted as satisfactory, provided the marking otherwise complies with the requirements at to location, legibility, and wording.

(e) Paper envelopes used merely to contain or cover shipments of goods consigned to Canada are not required to be marked. (See "d" No. 1 and "a" No. 7.)

13. Chinaware and Porcelainware (not Including Sanitary or Toiletware, Decorated or Undecorated) as follows:—
(i) Articles Commonly used in Connection with the Serving of Food or Drink;
(ii) Kitchenware and Utensils;
(iii) Heraldric and Souvenir Ware.

(Order in Council (P.C. 2505) of 11th October, 1934, effective on and after 1st January, 1935.)

Regulations

(a) Chinaware and porcelainware must be marked on each piece, except in instances where a lid or cover accompanies a pot, bowl or dish, in which case the lid or cover need not be marked where the pot, bowl or dish itself bears an indication of the country of origin.

(b) An indication of the country of origin will not be accepted as complying with the requirements as to permanency if, although otherwise satisfactory, the marking has been accomplished by means of painting or stamping after the articles have been kiln-fired in the process of manufacture, and payment of additional duty of 10 per cent will be required in respect of all such goods. Until further instructed, however, chinaware or porcelainware not marked or not sufficiently marked at the time of importation may, after payment of the additional 10 per cent duty, be marked by means of stamping or painting or by means of an adhesive label.

(c) With respect to chinaware and porcelainware, the Department will accept the name of the country alone as a satisfactory indication of the country of origin, and will also accept the name of the manufacturing or producing firm accompanied by the country of origin, without the inclusion of the city or province in that country in which the manufacturer or producer is located. In the case of chinaware and porcelainware, the words "Made in," "Produced in," or words of similar import are not required.

MARKING OF GOODS IMPORTED FROM A FOREIGN COUNTRY HAVING THEREON THE NAME OR TRADE MARK OF A DEALER OR TRADER IN THE UNITED KINGDOM, IN CANADA, OR ANY OTHER BRITISH COUNTRY.

The importation of the following goods into Canada is prohibited under Item 1209, Schedule C, viz:—

"Any goods manufactured in any foreign state or country which bear any name or trade mark which is or purports to be the name or trade mark of any manufacturer, dealer or trader in the United Kingdom or in Canada, or in any other British country, unless such name or trade mark is accompanied by a definite indication of the foreign state or country in which the goods were made or produced."

CHAPTER NOTES

MONTREAL

"Fun With Figures"

Reported by R. Schurman, C.A., Secretary

Friday, the 18th (13 + 5) of the 1st month of 1935, 175 friends and members of the Montreal Chapter, consumed between the hours of eight to eleven p.m., more than 1,000 smokes. The occasion was the Annual Smoker held at McGill Union. Past-Chairman Don Patton, arranged the program.

We poured into the large McGill Union Hall in ones, twos and groups of eight. Some of the bunch slim, youthful, eager students; others portly middle aged accountants—all eager to see the advertised display of strength, skill and grace.

We chalked up another "away-from-home-run" against Chairman Dufresne, who is becoming famous as our "Absentee Chairman." Just his hard luck, or good luck to be so busy. Vice-Chairman P. W. Wright pinch-hitted in his usual dignified dependable style. Bert Light, the well known boxing coach, acted as Master of Ceremonies; refereed the bouts; led the group singing; fought three rounds himself; told a dozen or so red hot stories; and showed himself a splendid entertainer. The contestants for the bouts were well picked. Bantams, light, middle and heavy weights—fine strong lithe young men—each having his own peculiar style of lead, defence and counter. All gave good exhibitions.

When the ringside ropes were removed "Stephanie and the Girls" were announced, and what a hit they made! Tit-tat-toe, three in a row—I'm Alone; Gypsum Queen; scanties and furbelow; taps and splits; high kicks, and what have you—Figures? Ask the expert "Judge." One of the tall beautifuls sinuously stood on her elbows, brushed the floor with her glistening curls, and formed a perfect six to music, out of her gorgeous, dainty, athletic figure. When she performed again she wore a white silk "Topper", matching one worn by "Sir W. C.", who from a mural decoration appeared to be slyly and humorously watching our hilarious part of the world being made safe for democracy.

. Next came the figures of Dawes capsules, hundreds of them, surmounting big black horses. Also "The stuff your Great Grandfather drank." "Sweet Caporals" fresh from the gilded cartons of the Imperial Tobacco Company; crisp, flaky, satisfying sodas from David and Frere, never until then "touched by a human hand". Then the Draw for handsome playing cards, the result of a generous "new deal" made by Director Rhodes. "Stephanie" herself drew out the winning numbers, and knowing and appreciating good music when she hears it sung low and lusty, pulled all the lucky numbers for the vociferous side of the house. The west side, with Stephanie's help, took all of the tricks.

The fighters were presented with souvenir "Bert Light" cigarette lighters. Pat Sullivan sang a few jolly good songs with his own concertina accompaniment. His Kipling number "And I learned about women from 'er", was exceptionally good.

It was a night full of figures, added to a long program and a big house. All were totally satisfied; a few were a little out of balance on the way home—but the general report checked up by "Father Belanger" is "Cost Accounting may be O.K. as a steady diet at the plant, but we see better and more interesting figures on a night like this!"—Certified correct by everyone present.

TORONTO

Whether because of the change in our original program, or because the meeting was held in a different place and at a different time than is usual, or because of lingering effects of holiday celebration, we cannot say, but the attendance of members at the January 11th meeting was very feeble in comparison with the turnout at previous gatherings this season. This was the meeting at which we were the guests of the Chartered Accountants, and the address

and discussion on the Dominion Companies Act was certainly presented in a most excellent manner. Both W. Kaspar Fraser, K.C., who was the speaker of the evening, and R. J. Dilworth, F.C.A., who led the discussion, spoke with an intimate knowledge of the subject; consequently, for anyone who is at all concerned with the new act, it proved to be a most instructive and enjoyable evening.

The next meeting of the chapter will be something new—a bridge and a social evening, to take place on February 8th. This will be Toronto's first venture of this kind for some time, and a record attendance should be on hand to join in the fun. There may not be quite the hilarity which one visualizes on reading reports of our more irresponsible brethren in Montreal, but amongst other inducements, we note from the notice of meeting that there will be a number of prizes and "refreshments for all tastes".

HAMILTON

Reported by R. Dawson

No meetings were held by the Hamilton Chapter during the month of January, but a social evening was held in the shape of a bowling night. A good number of members and friends attended and they were rewarded with a fine timt. Some of the boys were mighty stiff for several days following and "never again" was a familiar saying around the offices for the days following this social evening. However, we wouldn't have missed it for worlds, even though our own score was terrible.

Art Bedwell, of the Steel Company of Canada, won the prize for high triple with 767, while W. A. Charde, of the Hamilton Pure Milk Dairies, won the prize for high singles, with a score of 238.

The next meeting of the Chapter will be held on Feb. 6th, when Mr. H. C. Upper, of the Canadian Wineries Ltd., of Toronto, will address the members on "Cost Accounting in the Wines Industry," and already some of the members are showing definite signs of real interest. Maybe it's the subject, and then again maybe it's the industry.

The sympathy of all members will go out to Walter Berquist, a valued member of the Hamilton Chapter, who is rather seriously ill, and all wish for a speedy and complete recovery.

We had intended the publication of a pen picture of one of the more prominent members of the Chapter, this month, but unfortunately, information which we relied upon is not yet to hand.

PERSONALS

In announcing the promotion of R. E. Heartz to assistant chief engineer of the Shawinigan and Engineering Co., Ltd., the Montreal Gazette carried the following summary.

Richard E Heartz, assistant chief engineer of the Shawinigan Engineering Co., Limited, was born in Marshfield, Prince Edward Island, August 18th, 1895, and graduated from McGill University in 1917 with the degree of B.Sc. Immediately after graduation he was employed by the St. Maurice Construction Company at La Loutre, on the construction of the Gouin dam. In the fall of the year he enlisted with the Royal Air Force, commissioned early in 1918 and was appinted flying instructor, being demobilized March, 1919. That year he joined the Fraser Bros. Engineering Co., Limited, and was

employed on the construction of Big Eddy dam on the Spanish River. He was appointed resident Engineer at La Gabelle development on the St. Maurice River in 1922, having joined the staff of the Shawinigan Engineering Co., Limited in 1920. He was resident engineer of the St. Narcisse development on the Batiscan River in 1924-5 and in 1926 was transferred to Montreal for investigation and preliminary design of hydro-electric developments. He was appointed resident engineer in 1927 of the Paugan Falls development on the Gatineau River and since the completion of this undertaking has been connected with the design and construction of different hydro-electric projects. He is a member of the Engineering Institute of Canada, the Professional Engineers of Quebec and a director of the Canadian Society of Cost Accountants and Industrial Engineers.

PROPRIETOR IS NO JOB SUPERIOR COURT RULES

"Proprietor" is not considered by the Montreal Courts as an occupation. But "stock speculator" is.

A witness, summoned to testify, was sworn by the clerk in the usual manner:

"DoyousweartotellthetruththewholetruthandnothingbutthetruthsohelpyouGodyourname?"

"Marcel Desrochers" replied witness.

"Occupation?"

"Proprietor."

"But that is not an occupation," objected Mr. Justice Alfred Forest.

Witness shrugged. "Stock speculator, then," said he.

And that's how he was inscribed in the official records.

THE TREND OF PRODUCTION COSTS

Commodity prices as measured by the Dominion Bureau of Statistics index number, which is based on the year 1926, showed no change in December from the previous month's figure of 71.2. The following is a comparison by main groups:

	Dec. 1933	Nov. 1934	Dec. 1934
Foods, beverages & tobacco	67.4	68.2	67.9
Other consumers' goods	77.3	76.7	76.7
All consumers' goods	73.3	73.3	73.2
Producers' equipment	87.2	89.5	89.6
Building & construction materials	80.6	81.9	81.5
Manufacturers' materials	58.6	62.9	63.4
All producers' materials	61.8	65.7	66.0
All producers' goods	64.3	68.1	68.4
All commodities	69.0	71.2	71.2

The principal losses in December were in the following: Fresh fruits, fishery products, eggs, and raw wool. The principal advances during the month were in live stock, raw cotton, raw silk, and antimony.

MEMBERSHIP CHANGES

January, 1935

MONTREAL CHAPTER

Take Off

Hemming, H. K. S., B.A., C.P.A., C.G.A., Charlottetown, P.E.I. (Transferred to non-resident)

Masse, L., C.P.A., I.P.A., Hull, Que. (Transferred to non-resident)

Add

Bourassa, A., Steel Company of Canada, Ltd., Montreal.

Orchin, J., Canadian Tube & Steel Products, Ltd., Montreal.

TORONTO CHAPTER

Add

Savage, C.A., Utah-Carter Radio, Ltd., Toronto.

Change of Address

McNeill, T. L., to 51 Parkside Drive, Toronto.

WINNIPEG CHAPTER

Take Off

Harvey, F.M., C.A., Harvey & Morrison, Calgary, Alta. (Transferred to non-resident)

Non Resident Members

Add

Harvey, F.M., C.A., Harvey & Morrison, Calgary, Alta.

Hemming, H. K. S., B.A., C.P.A., C.G.A., Charlottetown, P.E.I.

Hodge, W. E., C.A., Hodge & Bamford, Scott Block, Moose Jaw, Sask.

Masse, L., C.P.A., I.P.A., 129 Main St., Hull, Que.

Moffet, H.S., C.A., G. C. Rooke & Co., Leader Bldg., Regina, Sask.

McCrum, R., 1240 Hawthorne Place, Richmond Heights, Mo., U.S.A.

Pitchford, T., 303 Frederick Ave., Peterborough, Ont.

Towner, J. A., C.A., Quebec Municipal Commision, Quebec, Que.

REFERENCE LITERATURE

RECEIVED IN JANUARY

Graphic and Other Visual Methods for Executives in Industry. The Accountant, Jan. 12.

Hospital Accounting. N.A.C.A. Bulletin, January 15.

Hospital Income, Establishing a Control Over. N.A.C.A. Bulletin, January 15.

Distribution Costs, Selling and. The Cost Accountant, December, 1934.

Grain Exporters and Shippers, Procedure and Accounts Relative to. Canadian Chartered Accountant, January.

Brush Factory, Developing Costs at a. N.A.C.A. Bulletin. January 1.

Ginger Ale Company, A Cost System for a Sparkling. N.A.C.A. Bulletin, January 1.

Charts, Graphic. The Accountants' Magazine, January.

INCORPORATED ACCOUNTANTS' YEAR BOOK, 1935

The approach of the Fiftieth Anniversary of the Society of Incorporated Accountants, which was founded in 1885, lends especial interest to the publication of the Incorporated Accountants' Year Book for the current year. This is the 48th Volume of the series issued by the Council of the Society.

The volume extends to 1210 pages. The names of all Incorporated Accountants, and of firms of which at least one partner is an Incorporated Accountant, are set out in Alphabetical and Topographical Lists. The book contains the names of 6,384 members, of whom 5288 are in England and Wales, 131 in Scotland, 165 in Ireland and 800 in the British Dominions and Colonies and in foreign countries. The Society has Branches and District Societies in the leading cities and towns of Great Britain and Northern Ireland, and throughout the British Dominions. There is indicated against the name of each town, the name of the Branch or District Society in the area of which it is situated. A special section of the book is devoted to the Examinations and publications of the Society, to the facilities at Incorporated Accountants' Hall, and to the Incorporated Accountants' Benevolent Fund.

GENERAL MOTORS OUTLINES ATTITUDE TO LABOUR

A statement wherein General Motors of Canada, Limited a large employer of Canadian workmen, commits itself to a policy of close relationship between the man in the shop and the man behind the manager's desk, was issued recently by H. A. Brown, vice-president and general manager. The statement deals with wages, working conditions, and the opportunity for intercommunication between employees and management, based on a system which in a measure parallels employee representation.

The company's attitude toward wages is partly expressed by the declaration that it is necessary to increase the spread between the cost of the bare necessities of life and the amount in the worker's pay envelope.

Levelling of employment peaks and valleys as far as the nature of the automobile industry permits is also subscribed to, and scattering the introduction of new models is expected to have beneficial effect.

"I do not remember a time," says Mr. Brown, in the preface to his statement, "when the public showed a keener interest in modern business than it does today. The ramifications of industry's financial structure are being laid open at Ottawa; demands for information on public finance are echoing and re-echoing from public platforms in Canada; and in the United States, we see the leaders engaged in economic measures sufficiently unusual to hold the attention of all of us. These things are not as one might suppose the cause of the average man's interests in big business; they are, to some extent, the result of that interest.

"I might say further, the interest of the public is now centred, not altogether in how much we can produce, or how quickly and cheaply we can produce it, but also in the manner of production. The man in the street is showing a keen appreciation of two distinct questions: first, is the consumer getting the products he wants; and second, what is the status of the workman in the schemes of production and distribution

"The Canadian public," the statement continues, in part, "is generally familiar with the attitude of our company with respect to the consumer and although the same general management point of view which prompts us to give particular consideration to the consumer prompts us to give similar consideration to our employees, it may be interesting to discuss in some detail how this general management philosophy is reflected in day to day practice.